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December 30, 2011

VIA E-FILING

Jocelyn Boyd, Esquire
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

RE: Application of Duke Energy Carolinas, LLC for Approval of Rider EE Vintage 0
Docket No.: 2011-40-E

Dear Ms. Boyd:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the terms of the settlement agreement approved in Docket No. 2009-226-E, has conducted a review of the Duke Energy Carolinas, LLC ("Duke" or "the Company") Application for Approval of EE Vintage 0¹, which will allow Duke to recover certain costs related to the Vintage 0 energy efficiency ("EE") and demand side management ("DSM") programs that were deferred under Duke's Modified Save-A-Watt program ("SAW") cost recovery mechanism. On July 22, 2011, the Company filed its request for approval of EE Vintage 0 with the Public Service Commission of South Carolina (the "Commission"). The Company's requested cost recovery covers costs during the period June 1, 2009 through January 31, 2010. The following table shows the Vintage 0 requested amounts by rate class.

Vintage 0 Request	
Residential	\$3,091,329
Non-Residential	
Industrial	\$1,657,167
General	\$1,168,246
Lighting	\$48,460
Total Non-Residential	\$2,873,873
Grand Total	\$5,965,202

¹ It should be noted that the filing covers energy efficiency and demand side management programs.

Background – The SAW program is unique in that the Company is compensated for administering the programs and for generating energy savings. Rather than recovering administration costs plus some additional amount, Duke receives a percentage of the supply-side costs that are avoided by implementation of the programs. For EE programs, the Company is approved to receive 55% of the net present value of avoided supply-side energy and capacity costs. For DSM programs, the Company is approved to receive 75% of the avoided supply-side capacity costs. The Company's costs to administer the programs, plus a return, are to be recovered by the avoided cost payments. This payment structure is designed to encourage the Company to pursue all cost effective EE and DSM programs. To prevent excessive earnings, SAW includes an earnings cap that varies, based on performance as measured by targeted savings. The Company may only collect lost revenues from EE programs over the succeeding three year period.

Vintage 0 represents the "start-up" period for the Duke SAW programs. The pertinent language from Order No. 2010-79 which addresses the recovery of Vintage 0 revenue requirements is as follows:

Order No. 91-1022 in Docket No. 91-216-E approved a deferred accounting process for energy efficiency and demand-side management programs (collectively "DSM costs"). The Settlement Agreement provides that a rider will be established to flow back the over-collection of funds to the Company's South Carolina customers from the demand-side management deferral account balance ("DSM balance"). The DSM balance will be returned over a three-year period at approximately \$43.5 million per year or until the DSM balance is exhausted. The refund shall be apportioned in accordance with the class of customers supplying revenues to Duke Energy Carolinas during the period of the DSM program. In addition, as set forth in the direct testimony of Company witness McManeus, the initially estimated revenue requirements for programs implemented during the period of June 1, 2009, through the effective date of new rates and charges approved pursuant to this Order and all associated true-up amounts will be applied as an offset to the existing balance of DSM costs owed to customers rather than billed to customers under Rider EE. The Commission finds and concludes that the provisions of the Settlement Agreement and Ms. McManeus' direct testimony relating to the return of the DSM balance are just and reasonable to all parties and are supported by the evidence contained in the record in this docket.² (Emphasis added.)

Revenues Requested – Duke is requesting the recovery of \$3,091,329 from residential customers and \$2,873,873 from non-residential customers. A breakdown of the components of these amounts is shown in Exhibit 1.

DSMore™ – The Demand Side Management Option Risk Evaluator ("DSMore™") is a computer program provided by Integral Analytics. It is one of the leading DSM and EE evaluation products available today, and is in use nationwide. The Company uses DSMore™ to evaluate prospective EE and DSM programs for cost effectiveness, to project the likely avoided energy and capacity for specific programs and to estimate lost revenues for specific programs. Specifically, avoided costs are estimated on a system basis by the DSMore™ computer program, then reduced by 25% or 45% to reflect the 75% and 55% portions approved to be received by the Company, then allocated to South Carolina. Lost revenues

² Paragraph 12, pages 12-13 of Order No. 2010-79 in Docket No. 2009-226-E

are also estimated on a system basis by the DSMore™ program and then allocated to South Carolina. For the Vintage 0 filing, the Company true-up the estimated avoided costs and lost revenues by using actual participation rates.

Evaluation, Measurement & Verification – No EM&V results are available for the Vintage 0 period, so the Company utilized estimated energy and demand impacts for all the SAW programs. ORS finds this to be reasonable, given that the Vintage 0 period is essentially the start-up period for the SAW programs.

Avoided Costs – ORS has verified that the per MWh and per MW-Year avoided energy costs and avoided capacity costs are the fixed costs approved in Commission Docket No. 2009-226-E. ORS finds that these are the proper avoided costs for the Vintage 0 period.

Retail Sales – The Company utilized its 2009 and 2010 Cost of Service studies for this filing. ORS finds this to be reasonable.

SACE/SCCCL Comments – The Southern Alliance for Clean Energy and the South Carolina Coastal Conservation League (“SACE/SCCCL”) submitted comments and recommendations concerning Duke’s Vintage 0 filing. ORS concurred with SACE/SCCCL’s recommendation that Duke provide an explanation concerning the application of the 15% earnings cap to Vintage 0, which the Company has provided through a supplemental letter filed with the Commission on September 6, 2011. ORS also agrees with SACE/SCCCL’s recommendations concerning a timeline for completing future EM&V reports, filing the reports with the Commission upon completion, and a clear timeline for applying EM&V results to program energy savings estimates in the mid-term and final true-ups. Finally, ORS agrees with SACE/SCCCL’s recommendation that Duke provide an energy savings true-up for Vintage 0 in the EE Vintage 4 Rider filing.

Audit Review – The ORS Audit Department made the following adjustments for Vintage 0 resulting in a \$58,686 reduction to the Company’s request:

1. ORS decreased total system level program costs by \$108,247. This represents 50% of total leadership incentives in the amount of \$216,494 paid to employees during the Vintage 0 review period. The 50% reduction is consistent with ORS’s treatment of incentives in prior rate cases. Exhibit 3, Line 18 is reduced by \$98,933 for the months of June 2009 through December 2009, and \$9,314 for the month of January 2010.
2. Total system level program costs were decreased by \$67,478. It was discovered that some expenses were erroneously charged to the Carolinas’ service territory. These expenditures were incurred in 2009 at the beginning of the DSM/EE program when the Company’s accounting and tracking processes were still being developed. Unable to determine the exact amount of the costs, ORS and DEC agreed to deduct the entire portion of program costs pertaining to the time period in question. These costs are to remain open for further review and are subject to any necessary corrections. This reduces Exhibit 3, Line 18 by \$64,720 for the months of June 2009 through December 2009, and \$2,758 for the month of January 2010.

The combined deductions to total program costs, as stated in #1 and #2 above, total \$163,653 for the months of June 2009 through December 2009, and \$12,072 for the month of January 2010. On a South

Carolina retail level, as shown on Exhibit 2, Line 8, for both the Residential and Non-Residential Revenue Requirements, this equates to increases in the Company's "Earnings (in excess of cap)" credits. The overall impact to the Residential portion is a \$29,451 credit and the Non-Residential portion is a \$29,235 credit to the Company's requested amounts. The total, \$58,686, will be netted against the Company's request causing more money to remain in the DSM Balance. As addressed earlier, the DSM Balance is currently being returned to customers as a credit via a rider approved in Docket No. 2009-226-E.

The following table shows the \$58,686 reduction resulting in ORS revised recovery amounts.

Class of Service	Company Request	ORS Revised Amounts	Reductions
Residential	\$3,091,329	\$3,061,878	(\$29,451)
Non-Residential			
Industrial	\$1,657,167	\$1,640,309	(\$16,858)
General	\$1,168,246	\$1,156,361	(\$11,885)
Lighting	\$48,460	\$47,968	(\$492)
Total Non-Residential	\$2,873,873	\$2,844,638	(\$29,235)
Grand Total	\$5,965,202	\$5,906,516	(\$58,686)

Summary – ORS recommends that the Company's total request of \$5,965,202 be reduced by \$58,686, approximately a 1% reduction. ORS appreciates the Company's responsiveness to the ORS and SACE/SCCCL suggestions. In the interests of judicial economy, ORS requests that the Commission approve the Company's request and the ORS recommended \$58,686 reduction without a hearing pursuant to S.C. Code Ann. §58-27-870(F). The Company and SACE/SCCCL support the request to approve the Vintage 0 rider with ORS's adjustments without a hearing. ORS also asks that the testimony and hearing dates be held in abeyance until a ruling is made on this request. This concludes ORS's review of the Duke Application for Approval of EE Vintage 0.

Sincerely,



Shannon Bowyer Hudson

SBH/gwe

cc: Charles A. Castle, Esquire (via e-mail)
Timika Shafeek-Horton, Esquire (via e-mail)
Frank R. Ellerbe, III, Esquire (via e-mail)
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J. Blanding Holman, IV, Esquire (via e-mail)

Requested Revenues
Duke SAW Programs - Vintage 0
June 1, 2009 through January 31, 2010

		<u>Residential</u>	<u>Non-Residential</u>
<u>SAW Avoided Costs:</u>			
Energy Efficiency (EE):			
(1)	Total System NPV Avoided Costs	\$ 9,594,498	\$ 10,866,322
(2)	55% of Total System NPV Avoided Costs = (1) x 0.55	\$ 5,276,974	\$ 5,976,477
(3)	South Carolina Portion	\$ 1,424,246	\$ 1,614,304
Demand-Side Management (DSM):			
(4)	Total System NPV Avoided Costs	\$ 4,503,622	\$ 3,128,725
(5)	75% of Total System NPV Avoided Costs = (4) x 0.75	\$ 3,377,717	\$ 2,346,544
(6)	South Carolina Portion	\$ 616,983	\$ 870,027
(7)	Total Avoided Costs - DSM & EE = (3) + (6)	\$ 2,041,229	\$ 2,484,331
(8)	Total Avoided Costs with Gross Receipts Tax and Regulatory Fee = (7) x 1.004581	\$ 2,050,580	\$ 2,495,712
<u>SAW Lost Revenues:</u>			
(9)	South Carolina Portion	\$ 1,127,180	\$ 463,961
(10)	<u>Earnings in Excess of Cap</u>	\$ (86,431)	\$ (85,799)
(11)	<u>Total Revenue Requirement = (8) + (9) + (10)</u>	\$ 3,091,329	\$ 2,873,873

Notes:

Avoided Costs and Lost Revenues are based on actual participation in the SAW programs.

The South Carolina portion of avoided costs are based on South Carolina percentage of total system requirements (for EE programs) and South Carolina percentage of total system demand (for DSM programs).

Total earnings are limited to 15% of actual program costs.

ORS
DSM/EE Cost Recovery Vintage 0
Calculation of Actual Revenue Requirement

Exhibit 2

Residential Revenue Requirement:

1 EE Avoided Cost Component	Company Exhibit 2, Line 8
2 DSM Avoided Cost Component	Company Exhibit 2, Line 14
3 Residential Avoided Cost Revenue Requirement	Line 1 + Line 2
4 Gross Receipts Tax and Regulatory Fee Factor	
5 Adjusted Residential Avoided Cost Revenue Requirement	Line 3 * Line 4
6 Lost Revenues Vintage 0 (Note 1)	Company Exhibit 2, Line 9
7 Residential Save-A-Watt Revenue Requirement	Line 5 + Line 6
8 Earnings (in excess of cap)	Company Exhibit 6, Line 33, Col D as credit
9 Amount to be applied as reduction to DSM Deferral Balance	Line 7 + Line 8

Company 6/1/09 - 12/31/09 Vintage 0 SC Retail Costs	Company January 2010 Vintage 0 SC Retail Costs	Company June 1, 2009 to January 31, 2010 Vintage 0 SC Total Retail Costs	ORS Adjustments	ORS Total 6/1/09 - 1/31/10
\$ 1,052,733	\$ 371,513	\$ 1,424,246		
\$ 549,053	\$ 67,930	\$ 616,983		
\$ 1,601,786	\$ 439,443	\$ 2,041,229		
1.004581	1.004581	1.004581		
\$ 1,609,123	\$ 441,456	\$ 2,050,580		
\$ 866,092	\$ 261,088	\$ 1,127,180		
\$ 2,475,215	\$ 702,544	\$ 3,177,760		
		\$ (86,431)	(29,451)	(115,882)
		\$ 3,091,329	\$ (29,451)	\$ 3,061,878

Non-Residential Revenue Requirement:

1 EE Avoided Cost Component	Company Exhibit 2, Line 10
2 DSM Avoided Cost Component	Company Exhibit 2, Line 15
3 Non-Residential Avoided Cost Revenue Requirement	Line 1 + Line 2
4 Gross Receipts Tax and Regulatory Fee Factor	
5 Adjusted Non-Residential Avoided Cost Revenue Requirement	Line 3 * Line 4
6 Lost Revenues Vintage 0 (Note 1)	Company Exhibit 2, Line 11
7 Non-Residential Save-A-Watt Revenue Requirement	Line 5 + Line 6
8 Earnings (in excess of cap)	Company Exhibit 6, Line 33, Col E as credit
9 Amount to be applied as reduction to DSM Deferral Balance	Line 7 + Line 8

Vintage 0 Total SC Retail Costs	Vintage 0 Total SC Retail Costs	Vintage 0 SC Total Retail Costs		
\$ 1,078,909	\$ 535,395	\$ 1,614,304		
\$ 779,623	\$ 90,404	\$ 870,027		
\$ 1,858,532	\$ 625,799	\$ 2,484,331		
1.004581	1.004581	1.004581		
\$ 1,867,046	\$ 628,666	\$ 2,495,711		
\$ 190,922	\$ 273,039	\$ 463,961		
\$ 2,057,968	\$ 901,705	\$ 2,959,672		
		\$ (85,799)	(29,235)	(115,034)
		\$ 2,873,873	\$ (29,235)	\$ 2,844,638
		\$ 1,657,167	(16,858)	1,640,309
		\$ 1,168,246	(11,885)	1,156,361
		\$ 48,460	(492)	47,968
		\$ 2,873,873	\$ (29,235)	\$ 2,844,638

Total Amount of Vintage 0 Impacts to be Applied to Industrial
Total Amount of Vintage 0 Impacts to be Applied to General
Total Amount of Vintage 0 Impacts to be Applied to Lighting

Company Exhibit 7, Line 11
Company Exhibit 7, Line 12
Company Exhibit 7, Line 13

Note 1: Lost revenues occurring after February 2012 are not included in V0 true-up, but are included in base rate changes approved for the rate case filed July 2011.

ORS
DSM/EE Cost Recovery Vintage 0
Calculation of Earnings Cap with Adjustments

Exhibit 3

System Level Earnings Cap Calculation Vintage 0			DSM/EE Recovery 6/1/09 - 12/31/09	DSM/EE Recovery January 2010					
Total for Conservation Programs (55%)									
1	AC Revenues-55%		Total	Total					
2	Program Costs	Company Exhibit 5, Pages 1-2	\$ 7,920,722	\$ 3,332,729					
3	Avoided Costs -100%	Company Exhibit 4	\$ 8,784,634	\$ 833,473					
4	kW	Company Exhibit 5, Pages 1-2	\$ 14,401,313	\$ 6,059,507					
5	kWh	Company Exhibit 5, Pages 1-2	8,121	3,117					
		Company Exhibit 5, Pages 1-2	48,682,894	18,216,425					
6	Income Before Taxes	Line 1 - Line 2	\$ (863,912)	\$ 2,499,256					
7	Income Taxes	Line 6 * .39176	\$ (338,446)	\$ 979,109					
8	Net Income	Line 6 - Line 7	\$ (525,466)	\$ 1,520,147					
Total for DSM Programs (75%)									
9	AC Revenues-75%		Total	Total					
10	Program Costs	Company Exhibit 5, Pages 1-2	\$ 5,094,046	\$ 630,214					
11	Avoided Costs -100%	Company Exhibit 4	\$ 3,230,445	\$ 278,549					
12	kW	Company Exhibit 5, Pages 1-2	\$ 6,792,061	\$ 840,285					
13	kWh	Company Exhibit 5, Pages 1-2	336,836	28,372					
		Company Exhibit 5, Pages 1-2	-	-					
14	Income Before Taxes	Line 9 - Line 10	\$ 1,863,601	\$ 351,665					
15	Income Taxes	Line 14 * .39176	\$ 730,084	\$ 137,768					
16	Net Income	Line 14 - Line 15	\$ 1,133,517	\$ 213,897					
Total for SAW Programs Adjusted for DSM Cap									
17	AC Revenues		Total	Total	Residential	Non-Residential	Total	Percent Residential	Percent Non-Residential
18	Program Costs	Line 1 + Line 9	\$ 13,014,768	\$ 3,962,943					
19	Avoided Costs	Line 2 + Line 10	\$ 11,851,426	\$ 1,099,950 (2)					
20	kW	Line 3 + Line 11	\$ 21,193,374	\$ 6,899,793	\$ 14,098,123	\$ 13,995,044	\$ 28,093,167	50.1835%	49.8165%
21	kWh	Line 4 + Line 12	344,957	31,489					
		Line 5 + Line 13	48,682,894	18,216,425					
22	Income Before Taxes	Line 17 - Line 18	\$ 1,163,342	\$ 2,862,993					
23	Income Taxes	Line 22 * .39176	\$ 455,751	\$ 1,121,606					
24	Net Income	Line 22 - Line 23	\$ 707,591	\$ 1,741,387					
25	Percent DSM Avoided Cost to Total Avoided Cost (A)	Line 11 / Line 19	32%	12%					
26	Percent Conservation Avoided Cost to Total Avoided Cost	Line 3 / Line 19	68%	88%					
27	Earnings Cap: Allowed Return on Program Costs	Line 18 * 15%	\$ 1,777,714	\$ 164,993					
28	System Earnings In Excess of Program Costs	Line 24 - Line 27	\$ (1,070,123)	\$ 1,576,394					
29	SC Allocation	(Co. Exhibit 2, Line 1 * Line 26) + (Co. Exhibit 2, Line 2 * Line 25)	26.6464%	26.9578%					
30	Excess Earnings to reduce V0 Revenue Requirement	Line 28 * Line 29	\$ (285,150)	\$ 424,962					
31	Total Excess Earnings June '09 - Jan '10 to reduce V0 Revenue Requirement	Sum Line 30 column amounts		\$ 139,812					
32	Gross Up of Earnings to Pre-Tax	Line 31 / (1-.39176)		\$ 229,863					
33	Gross up of Pre-Tax Earnings for Gross Receipts Tax and Regulatory Fee	Line 32 * 1.004581		\$ 230,916	Residential \$ 115,882	Non-Residential \$ 115,034			
(A) No Adjustment required since DSM avoided costs percent is less than 40%					Split based on Line 19 Avoided Costs Customer Percentages				

- (1) DEC Filing of \$12,015,079 less \$98,933 incentives and \$64,720 ORS adjustments
- (2) DEC Filing of \$1,112,022 less \$9,314 incentives and \$2,758 ORS adjustments
- Only the Total Program Costs (Line 18) were adjusted by ORS. Based on these adjusted costs and the resultant computations from Line 18 forward, the Company's Excess Earnings figures were revised (Line 33).

Note: 50% of all incentives are deducted from Program Costs based on methodology used in previous rate cases.